Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

TO: The Commission

REPLY COMMENTS OF CAMERON TELEPHONE COMPANY, LLC

Cameron Telephone Company, LLC ("Cameron"), a rural telephone company which provides local exchange and other telecommunications services along and near the Gulf Coast in southwestern Louisiana, submits its reply comments regarding the definition of the terms "sufficient" and "reasonably comparable" in Sections 254(b) and (e) of the Communications Act of 1934, as amended. Cameron must rely significantly upon Universal Service Fund support in its present and future efforts to rebuild and recover from the destructive winds and flooding of Hurricane Rita in September 2005. It wants to make sure that "sufficient" high-cost support remains available to enable rural carriers to continue to operate, maintain and upgrade their rural networks so that they can provide telecommunications services that are "reasonably comparable" to those available in urban areas.

Cameron is aware that this proceeding is a result of the *Qwest II*[1] remand, which dealt only with the non-rural high-cost support mechanism. However, Cameron is concerned that the definitions adopted in this proceeding will not be applied solely and

[1] *Qwest Corp. v. FCC*, 398 F.3d 1222 (10th Cir. 2005).

entirely to the non-rural mechanism, but rather may directly or indirectly affect the very different circumstances faced by rural telephone companies.

Definition of "Sufficient"

Whereas Section 254(b)(5) of the Act declares that there should be "specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service," the term "sufficient" has a very different import and impact for rural telephone companies than for the Regional Bell Operating Companies ("RBOCs") and other large, non-rural carriers.

For rural telephone companies, the key element of "sufficiency" is the sufficient cost recovery necessary to enable investment in essential rural telecommunications infrastructure. Without assurance that they can recover their construction and operating costs, most rural telephone companies cannot obtain the financing necessary to invest in and improve their networks in sparsely populated and high-cost rural areas.

Even in the best of times and conditions, rural telephone companies generally have been limited to serving remote and sparsely populated areas unwanted, disregarded or abandoned by the larger carriers. They have had to deal with a variety of conditions that discouraged investment, including rugged terrain, long distances, high costs, small customer and revenue bases, absence of economies of scale, and a lack of high-revenue business customers. Along the hurricane-ravaged Gulf Coast, these traditional rural hardships have been exacerbated by major wind and water damage to switches and outside plant,[2] the temporary or permanent relocation of many customers and businesses,

[2] Whereas BellSouth and AT&T/Southwestern Bell also suffered substantial damage from Hurricanes Katrina and Rita, they serve millions of residential and business customers in areas that were not damaged by the 2005 storms. In contrast, large portions of the service areas of Cameron and other Gulf Coast rural carriers were impacted.

the reluctance of banks and private investors to fund substantial telecommunications and other investments in storm-prone areas, and the reluctance of insurance companies to insure against future hurricane risks.

Cameron and other rural telephone companies also face much different investment financing options than the RBOCs and other non-rural carriers. They are generally smaller companies with more limited revenues and cash reserves, as well as more limited access to capital markets. Most are not in the position to sell their stock or bonds on national or regional exchanges or to obtain loans from the major national and international banks. Rather, rural telephone companies are generally limited to the Rural Utilities Service ("RUS"), the Rural Telecommunications Finance Cooperative ("RTFC"), the Cooperative Bank ("CoBank") and a handful of local banks for investment capital beyond their own cash reserves.

These limited financing alternatives are exacerbated by: (1) high rural infrastructure construction and operating costs, and (2) limited rural revenue potential. Rural loops and inter-office transmission lines are typically long and expensive to construct and maintain. Whereas Cameron does not have to contend with desert or mountain terrain like many of its rural telephone company counterparts, it must deal with salt water corrosion and with wind and water damage to its outside plant and switches from Gulf storms and hurricanes. Cameron's switches, like those of most rural carriers, serve relatively few customers, which minimizes its economies of scale and increases its per-subscriber costs. Finally, Cameron's already limited revenue potential (due to its sparse rural population, relatively few large rural business customers, and lower rural household incomes) has decreased significantly due to the temporary or permanent relocation of substantial numbers of customers whose homes, jobs and/or businesses were destroyed by Hurricane Rita.

Due to its high investment and operating costs and its limited revenue potential, Cameron must rely upon "sufficient" cost recovery from federal high-cost support during the best of times in order to obtain investment capital. In light of the substantial costs of repairing or rebuilding much of its network after Hurricane Rita and the significantly lower revenue potential of its dispersed and dislocated customer base, this reliance will be even greater during the foreseeable future. "Sufficient" federal high-cost support will be absolutely essential if Cameron is to make the re-investments necessary to recover from Hurricane Rita, as well as to make the upgrades necessary to keep pace with changing technologies and market conditions.

Cameron and many other rural carriers could not obtain financing for substantial infrastructure investment or reconstruction projects if they had to depend upon local service revenues solely or predominately for recovery of the investment costs. There are not enough rural residential customers, and far too few large rural business customers, to generate the local service revenues necessary to recover such investment costs unless local service rates are increased to levels (e.g., up to \$70-to-\$100 or more per month) that could not be afforded by many low-income and middle-income residents of southwestern Louisiana and other rural areas. In addition, the interstate and intrastate access revenue streams that have long provided a significant portion of cost recovery for rural carriers are under substantial downward pressure from: (a) technological and market changes (*e.g.*, wireless calling plans and certain Internet Protocol calling services); (b) avoidance and evasion tactics (*e.g.*, phantom traffic); and (c) regulatory reduction and abolition proposals (*e.g.*, bill and keep plans). Hence, federal high-cost support is the essential revenue stream for recovery of the costs of constructing, reconstructing and upgrading rural telecommunications infrastructure. Since the federal Universal Service Fund was implemented in the mid-1980s, it has enabled the substantial majority of rural telephone companies to invest in the facilities necessary to provide their rural customers with quality and affordable telecommunications services reasonably comparable to those available in urban areas.

The investment calculus is much different for the RBOCs and other non-rural carriers. These non-rural carriers are generally large companies that serve large study areas containing substantial urban areas. Whereas non-rural carriers do serve some rural areas, their rural service areas are normally dwarfed by the urban areas and populations within the same study area, and generate only a small and immaterial portion of the non-rural carrier's total revenues and costs.

Many non-rural carriers have been reluctant to invest in their rural exchanges. There may be a variety of reasons for this, such as more attractive investment options elsewhere and pressures on management to maintain high profit levels or stock prices. However, in most instances, the lack of substantial investment by non-rural carriers in their rural exchanges is not due to a lack of financial resources or a lack of access to capital markets. In other words, most non-rural carriers do not need federal high-cost support in order to obtain the financing necessary to invest in their rural exchanges. The problem is generally one of motivation rather than money. To date, state service quality requirements appear to have been a far more effective tool than high-cost support for "encouraging" non-rural carriers to invest in their rural exchanges. And even there, many non-rural carriers have shown far greater interest in selling their rural exchanges to rural carriers than in making substantial investments to upgrade them.

Hence, "sufficient" high-cost support has a very different meaning and function for rural carriers than for non-rural carriers. Regardless of how the Commission ultimately defines "sufficient" for non-rural carriers, it needs to remember that "sufficient" high-cost support for rural carriers must focus upon the cost recovery necessary to preserve investment incentives and capabilities.

In rural areas, the existing embedded cost mechanism has been "sufficient" to enable recovery of the above-average investment and operating costs of rural carriers, and has been very successful in encouraging investment by rural telephone companies in good quality rural infrastructure. During recent years, uncertainty regarding the future of rural high-cost support and interstate access revenues has slowed investment somewhat. The Commission must keep in mind that sufficient, stable and predictable cost recovery over the long term is necessary to encourage investment in telecommunications infrastructure that may subject to loan amortization periods and depreciation periods of ten or twenty years or longer.

In the future, whether high-cost support remains "sufficient" to encourage necessary and appropriate investment by rural carriers will depend upon the nature and amount of the rural costs that must be recovered by it. For example, if the current access revenue stream of rural carriers is reduced substantially or eliminated, high-cost support will need to increase significantly to prevent operating losses and the drying up of investment funds and incentives. Likewise, if universal service is defined to require the availability of ubiquitous broadband service throughout rural study areas, high-cost support will need to be increased to recover the substantial additional costs of the broadband construction and investment required.

Definition of "Reasonably Comparable"

For rural telephone companies and their customers, the most important element of the Section 254(b)(3) principle of "reasonable comparability" is the availability of **reasonably comparable services** in rural areas. It is absolutely essential for the continuing existence and future recovery and economic development of Gulf Coast and other rural communities that their residents and businesses have access to telecommunications and information services "reasonably comparable" to those available in rural areas. Rural businesses need reasonably comparable telecommunications services to compete and survive in increasingly interconnected local, regional, national and global markets. Rural communities need reasonably comparable telecommunications services to keep their current businesses and residents (especially their young people), and to attract new businesses and residents.

For rural telephone companies and their communities, "reasonable comparability" is closely intertwined with "sufficiency." Without sufficient and predictable high-cost support, the investors and lenders of rural telephone companies will not approve and fund the investments necessary to maintain and upgrade rural telecommunications infrastructure. And without this investment, reasonably comparable services will not be available in many rural communities at any price.

With respect to the "reasonable comparability" of rural rates vis-à-vis urban rates, any comparison must be based upon typical total monthly bills for local and long distance toll services. Customers of rural carriers tend to have smaller local calling scopes (with many able to reach less than 5,000 other customers with a local call), and make proportionately more toll calls. Hence, the urban myth that rural residents have low telephone service rates needs to be corrected to reflect the fact that many urban residents must make toll calls to reach their work places, government agencies, schools and friends, and the fact that many rural residents incur substantial monthly toll charges to reach "local" places similar to those that their urban counterparts routinely call toll free. In addition, any comparison of "reasonably comparable" rates should also take into consideration the recent trends toward the offering of bundled service packages, as well as the complexities of allocating the package prices among various services.

In the end, whereas reasonably comparable rural and urban rates is a worthy policy goal, the development of models and mechanisms to reach this goal with respect to rural carriers is a difficult and complex task that could take the Commission's attention and effort away from the more important task of providing sufficient cost recovery to enable and encourage rural infrastructure investment and to make available services that are reasonably comparable to those in urban areas.

Conclusion

Given that this proceeding relates solely and entirely to the revision of the high-cost support mechanism for non-rural carriers, the definitions of "sufficient" and "reasonably comparable" adopted herein should not be applied directly or indirectly to the wholly different high-cost support mechanisms relied upon by rural carriers.

At such time as the Commission defines "sufficient" and "reasonably comparable" with respect to rural carriers and support mechanisms, it should focus upon entirely different considerations than those for non-rural carriers. Specifically, with respect to rural carriers, the term "sufficient" should focus upon the sufficiency of the cost recovery necessary to maintain existing rural infrastructure and encourage investment in rural network upgrades. Likewise, the term "reasonably comparable" must focus upon investment in, and availability of, telecommunications facilities and services in rural areas that are reasonably comparable to those in urban areas.

Respectfully submitted,
CAMERON TELEPHONE COMPANY, LLC

By Gerard J. Duffy

Blooston, Mordkofsky, Dickens,
Duffy & Prendergast
2120 L Street, NW (Suite 300)
Washington, DC 20037
Phone: (202) 659-0830
Facsimile: (202) 828-5568
Email: gjd@bloostonlaw.com

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